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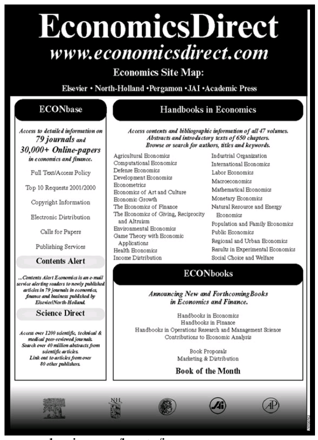

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ACCEPTED MANUSCRIPT

Leaving before bad times: Does the labor market penalize pre-emptive director resignations?☆

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Abstract

When firms experience negative events such as lawsuits or earnings restatements, their directors also suffer. But what about those who leave shortly before the events? I show that directors who leave prior to negative events experience greater declines in the number of their directorships than directors who stay through the events, but smaller declines than directors who leave after the events. These declines do not appear to be voluntary or driven by forced departures. Instead, they appear to be the results of labor market penalties. The results suggest that resigning pre-emptively does not protect directors from labor market penalties.

JEL classification

G30; G34

Keywords

Director departures, Reputational concerns, Board seats, Labor market settling-up

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1. Introduction

How effective is the director labor market? Prior studies suggest that, when firms experience negative events (e.g., class action lawsuits, and earnings restatements), their directors also suffer. Some directors are removed from the boards in the post-crisis period (e.g., Brochet and Srinivasan, 2014; Srinivasan, 2015); while some others experience a decline in their subsequent number of board seats (e.g., Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2014). However, while there is ample evidence that the labor market penalizes directors who are

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